

MINUTES
BOARD OF TRUSTEES OF THE
PUBLIC EMPLOYEES' RETIREMENT FUND
143 West Market Street, Suite 500
Indianapolis, IN 46204
January 10, 2003

EXECUTIVE SESSION

Trustees Present

Jonathan Birge, Chair
Richard Doermer, Vice Chair
Garland E. Ferrell
Connie R. Thurman
Nancy Turner

Others Present

Fred Biesecker, PERF Acting Executive Director
Forest Bowman, Attorney-at-Law

The Board met in Executive Session to discuss matters under IC 5-14-1.5-6.1(b)(6).

REGULAR SESSION

Trustees Present

Jonathan Birge, Chair
Richard Doermer, Vice Chair
Garland E. Ferrell
Connie R. Thurman
Nancy Turner

Others Present

Mary Beth Braitman, Ice Miller
Mike Engel, Norwestern
Bart Herriman, Executive Assistant to the Governor
Stephanie Rhinesmith, Public Finance Office
Michele Solida, Indianapolis Star
Eric Swank, Ice Miller
Doug Todd, McCready & Keene, Inc.
Fred Biesecker, PERF Acting Executive Director
Caroline Drum Bradley, PERF Internal Auditor
Diann Clift, PERF MIS Director
Joseph Duncan, PERF Investment Officer
Patricia Gerrick, PERF Chief Investment Officer
Ed Gohmann, PERF Legal Counsel
Bruce Kimery, PERF Chief Benefits Officer
Patrick Lane, PERF Communications Director
Tim Legesse, PERF Investments Officer
Doug Mills, PERF Chief Financial Officer

Tom Parker, 1977 Fund Director
Thomasina Wilson, Investments Assistant
Lynda Duncan, Minute Writer

1. APPROVAL OF APPOINTMENT OF EXECUTIVE DIRECTOR, PERF. The Board of Trustees received the recommendation of the Search Committee to appoint Craig Hartzler as the new Executive Director of PERF.

MOTION duly made and carried to approve the appointment of Craig Hartzler as Executive Director, PERF, subject to approval by the Governor. Mr. Birge and Mr. Doerner will review the terms and conditions of employment for this appointment and bring those back to the Board for review at the next meeting on February 14, 2003.

Proposed by: Connie Thurman
Seconded by: Garland Ferrell
Votes: 5 for, 0 against, 0 abstentions

It was noted that Mr. Hartzler would assume his duties as Executive Director on February 10, 2003 and that Mr. Biesecker would relinquish his duties as Acting Executive Director on January 31, 2003. It was proposed that Mr. Kimery, Chief Benefits Officer, would assume the duties of Acting Executive Director during the interim period.

MOTION duly made and carried to approve the appointment of Bruce Kimery, Chief Benefits Officer, as Acting Executive Director during the period from January 31, 2003 until Mr. Hartzler assumed his appointment on February 10, 2003.

Proposed by: Garland Ferrell
Seconded by: Nancy Turner
Votes: 5 for, 0 against, 0 abstentions.

2. APPROVAL OF MINUTES.

MOTION duly made and carried to approve the minutes of the December 13, 2002, Board of Trustees Meeting.

Proposed by: Garland Ferrell
Seconded by: Nancy Turner
Votes: 5 for, 0 against, 0 abstentions.

3. ADMINISTRATION.

- a. Staffing Update. Mr. Biesecker noted the hiring of two retirement counselors and advised that a third counselor was expected to join PERF in the near future. New personnel had also been hired to work in the Call Center and Accounting Department. PERF was in the process of formulating a more comprehensive staffing plan that would be presented to the Board of Trustees at their meeting on February 14, 2003.

- b. Ways and Means Committee. Mr. Biesecker noted that he had testified before the Ways and Means Committee on January 9, 2003. Dr. Christopher, Executive

Director, Teachers' Retirement Fund, had also been invited to appear. Mr. Biesecker noted that although PERF's budget does not go through the Ways and Means Committee, three of PERF's Funds (Judges, Legislators, and Prosecutor) have line item appropriations, and therefore PERF has traditionally appeared before the Ways and Means Committee for that purpose. PERF's actuary, Mr. Todd, had prepared numbers for those three funds and had submitted them to the Budget Agency. The following items were presented to the Ways and Means Committee:

- Pensions and Investments Magazine Public Funds Survey. P&I magazine had surveyed 73 Public Pension Funds (returns for FY 2002, plus figures for 3 and 5 year returns). PERF had been rated in 16th position. TRF had been rated in 6th place.
- Investment Statistics. 2002 had been a difficult year for equity investments; however, PERF had performed well in comparison to its peers and industry benchmarks. He noted that for the Annuity Savings Accounts, over 85% of investments were in the Guaranteed Fund (which has a return of 7.75%). For the fourth quarter, all six ASA Funds had given positive returns.
- Information was provided on performance results in the Benefits Department and steps being taken to eliminate the processing backlogs.
- PERF's role in the Energize Indiana initiative.
- Early Retirement Initiative. PERF was receiving numerous requests for estimates, from state employees who are interested in participating.
- PERF's Annual Report. Mr. Biesecker had provided some background information to familiarize several of the newer legislators on the Ways and Means Committee with the PERF operation. He noted that figures provided were current as of June 30, 2002. This showed asset allocation and the total assets for the various component funds. Figures relating to comparative investment results were -4.51% for the year (PERF's peer group was -5.9% and the target index was -6.5%). He noted that PERF had started investing in equities in May 1997 and in 1998 and 1999 PERF had double digit positive returns. However, these figures had suffered the past few years.
- Pre-employment Screening Form. He provided a handout of the policy statement on pre-employment screening that is part of the hiring personnel package.

Discussion had included the potential increase to the State contribution rate. PERF's actuary was working on the valuation as of July 2002. Currently, we are working with the July 2001 actuarial valuation, which is used to set the State's contribution rate as employer. It is currently at 5.2%. The rate for 2003 – 2004 will be based on the snapshot of figures for July 2002. Assets declined in FY 2002 by approximately 4.5%. PERF's funding ratio at July 2001 was 105%. Mr. Biesecker noted that in order to maintain this figure above the 100%

threshold, there would probably be a requirement to increase the State contribution rate for 2003 - 2004 accordingly. These figures should be available in February 2003. He noted that five years ago the contribution rate had been 6.6%.

- c. SIRIS Update. Ms. Clift advised that PERF continued to work with Covansys to make headway on functionality and work was currently focussing on processing 1099s. At this time, work is on track to meet the target dates.

- Work in hand also includes year-end reporting. Member interest postings were made on December 31, 2002 and the process had gone well with all interest being paid into member accounts.
- Mr. Jeff Eckert had joined Covansys as on-site manager and was involved in work on the 1099s. The regional Vice President, Mr. Mooers attended many of the weekly meetings of the Executive Directors of PERF and TRF.
- On December 31, 2002, \$1.7 million was released to Covansys for three change controls. On two of the change controls, 25% was withheld subject to completion of the work. Currently, PERF is holding \$1.5 million in invoices from Covansys until the work involved has been completed satisfactorily. An additional \$1.2 million in invoices have not yet been received. Currently, PERF has \$2.7 million with which it can leverage satisfactory completion of the work by Covansys.
- The Executive Directors of PERF and TRF meet weekly to review the invoices, work accomplished and to decide on payment of invoices. These meetings will continue until all the issues are closed out. The invoices do not include costs for contract retainers. An additional 10% is being held back on all work involved in SIRIS Stage II. Ms. Clift noted that Mr. Kimery had also attended the weekly meetings with the Directors. Having direct feedback from the staff concerning the exact problems was beneficial. Ms. Clift considered that issues were now being resolved through this process of verification and negotiation.

- d. Committee Meeting Schedule. The Board was provided with a list of proposed dates and time for Board Committee meetings.

4. LEGAL. Ms. Braitman and Mr. Gohmann provided an overview of legislation being discussed during the current legislative session.

- SB0094 – Magistrates’ Pensions. This allows a person serving as a full-time magistrate on July 1, 2003, and requires a person who begins serving as a full-time magistrate after July 1, 2003, to become a participant in the Judges’ 1985 Benefit System. It allows a magistrate who is a participant in the 1985 Benefit System to purchase, at full actuarial cost, service credit for prior service as a full-time commissioner, magistrate, or referee, or for prior service in other Indiana public employees’ retirement fund positions.

- SB0127 – Cigarette Tax Revenue Distribution. This provides that five cents of the tax on each pack of cigarettes sold is to be distributed to Indiana cities and towns based on population. It redistributes the remaining cigarette and other tobacco product taxes. Ms. Braitman noted that PERF is one of the primary beneficiaries of the revenue going into the Police and Fire pension relief system. Mr. Gohmann noted that a one-time transfer of \$60 million from the Pension Relief Fund had been included as an element in the State budget proposal. Mr. Todd was providing a forecast of when the Pension Relief Fund would be depleted, but it was noted that this time would come sooner if money were taken out now. Mr. Braitman noted that this issue would probably be raised during the next 1977 Advisory Committee meeting on January 17, 2003.
- SB 141 – PERF Direct Deposit Notices. This Bill would require PERF to adopt a policy promoting direct deposit as the preferred way for members and beneficiaries to receive monthly benefits. It requires PERF to provide members and beneficiaries using direct deposit with written notice before a benefit amount change or once every 12 months if the benefit amount does not change. Ms. Braitman noted that this requirement had been adopted by the Social Security Department and had proved difficult to implement. Mr. Biesecker noted that PERF already encourages use of direct deposit and a form signing-up to use direct deposit is included with the retirement application packet.
- Miscellaneous Bills.
 - Ms. Braitman provided information on a proposed bill that would change the law with respect to the selection of a custodian.
 - A bill was being proposed that would mandate the provision of certain investment options. Treasury Bonds, daily/monthly investment direction changes, and other permutations. It was considered that the Pension Management Oversight Commission (PMOC) should first study such proposals.
 - Mr. Gohmann noted that there was another bill being proposed that would revive the concept raised at the last session requiring that 20% of PERF alternative investments be made in Indiana and if not, the amount of alternative investments that would be allowed, would be reduced proportionally. It was noted that the PERF Board had taken a strong interest in the Indiana Futures Fund.

5. POLICE AND FIRE

a. Line-of-Duty Death Determination.

MOTION duly made and carried to approve a line-of-duty death determination in the matter of Ralph Stott, Terre Haute Firefighter.

Proposed by: *Garland Ferrell*
Seconded by: *Nancy Turner*

Votes: 5 for, 0 against, 0 abstentions

- b. Report on 1977 Fund Advisory Group Meeting. Mr. Parker noted that the following items had been addressed at the meeting of the Advisory Group held on December 16, 2002:

- Line-of-Duty Death Determination (Ralph Stott).
- Local Disputes. Mr. Parker advised that there had been a difference of opinion between the Mishawaka local pension board and the local pension secretary concerning satisfactory administration of the statewide base-line exams. The position of PERF was not to become involved in local disputes and the exams had been returned to the Mishawaka Pension Secretary for completion.
- Benefits status and exhaustion of leave time. It was noted that for normal retirements, it was not necessary for members to exhaust all leave time before they could go on benefit status.
- Official Start Date of Disability Benefits. There is currently a legal requirement that all leave must be exhausted for disability status could start. A subcommittee 1977 Fund Advisory Committee will meet to review the concept concerning the starting date of disability benefit status.
- State's economic development plan. Comment had been made about whether or not there would be a loan from the funds to the state or whether this would affect benefits. This situation had been clarified. It stemmed from misinformation concerning the Energize Indiana Plan.

6. BENEFITS. Mr. Kimery provided a summary of items discussed at the Benefits Administration Committee meeting held that morning:

- a. Goals. Establishment of goals for the retirement and benefits administration areas (first payments/full payments/ timelines for scheduling counseling sessions and other workload issues).
- b. Workload. Work had intensified on retirement and refund applications and there had been no increase in the backlog during the last 30 days. He noted that retirement counseling and estimated was booked out to March 11.
- c. Staffing. Two retirement counselors had been hired and their start dates were being negotiated. An offer had been made for another retirement counselor position. References were being checked on another candidate.
- d. Customer Feedback. Copies of a retirement counselor evaluation form were provided. Initially, customers having counseling sessions will be asked to complete the form. This will eventually be expanded to other areas.

- e. Payment of Estimated Benefits. Mr. Kimery listed the advantages and disadvantages of paying 85% of full benefit. He noted that as the processing backlog was reduced, this would become a more viable option. This would also depend on fixing some of the SIRIS issues currently affecting calculation of estimated benefits, and would eliminate the need for using off-line excel spreadsheets and to perform estimated benefit calculations.
- f. Security Measures. Mr. Biesecker noted that the checks currently being issued would exclude the first five digits of the member's Social Security Number. This would also be done for quarterly statements and direct deposits as a preventative measure against potential identity theft.
- g. The quarterly newsletter was being mailed out.

7. INVESTMENTS.

- a. Investment Committee Meeting. Mr. Doermer provided a summary of items addressed during the Investment Committee meeting:
 - Consultant Contracts. Consideration had been given to extending consultant contracts with Mercer Consulting, Burnley Associates and Strategic Investment Solutions to coincide with fiscal year end. Due to the anticipated significant changes as a result of new custodial arrangements, it was agreed that any decision on these contracts would be deferred until June 30, 2004. Final provisions will be presented for Board approval in February following additional discussions with these providers.
 - The Small Cap, Mid Cap and Global Opportunistic areas were discussed.
 - ❑ The policy statement and strategic investment strategy for PERF's public securities and alternative investment program were reviewed. The review provided implementation activity to date. The Committee elected to maintain the current alternative investment policy but not receive additional recommendations for alternative investments at this time.
 - ❑ Staff requested additional time to complete an analysis of Progress Investment Management and impact of recent developments discussed during the Investment Committee meeting. A recommendation was made to employ BGI as temporary manager of Small Cap/Mid Cap Growth allocation.

MOTION duly made and carried to approve employment of BGI for a temporary allocation (6-month assignment) for Small Cap/Mid Cap Growth.

<i>Proposed by:</i>	<i>Richard Doermer</i>
<i>Seconded by</i>	<i>Nancy Turner</i>
<i>Votes:</i>	<i>5 in favor, 0 against, 0 abstentions.</i>

- ❑ A recommendation was made to employ Invesco as the Global Opportunistic Manager. Mr. Doermer noted that this had been the subject of intense competitive bidding.

MOTION duly made and carried to employ Invesco as the Global Opportunistic Manager.

Proposed by: Richard Doermer
Seconded by Nancy Turner
Votes: 5 in favor, 0 against, 0 abstentions.

8. ACCOUNTING/FINANCIAL/AUDIT.

- a. Mr. Mills noted that the benefit checks had been mailed out for the January 15 benefit checks. They had included the COLA at 1.4% of the pension benefit. Direct deposits would go out next week.
- b. Six Month Year-to-Date Expenses.
 - Actual year-to-date expenses totaled \$12.9 million (compared to \$15.6 million in the budget). Therefore figures are favorable to budget by \$2.7 million or 17.5%. The largest expenditure related to investment fees (\$8.5 million year-to-date compared to a budget of \$9.6 million).
 - Headcount. PERF has 65 employees compared to a budget of 78 positions and therefore it is under-budget for salaries, wages and benefits, with a \$600,000 favorable variance through the first six months on personnel services.
 - Consulting Services. PERF is favorable to budget for major projects (data clean up, and asset liability study) due to a later start on these projects.
 - Printing expenses. This shows an unfavorable variance. Expenditures had included printing of new member handbooks, and several new forms had been redesigned, resulting primarily from legislative changes.
 - The SIRIS capital development project constituted a significant line item. On a cash basis, PERF had paid out almost \$1.8 million year to date. Mr. Ferrell asked if money was moved within the budget in a formal way. Mr. Mills noted that PERF was monitoring figures each month and tracking spending by department and by type of expense within each department. This was PERF's first budget and therefore for some of the line items there was little history available. It was anticipated that with more experience, FY 2004 budget would be more accurate for certain line items such as postage and printing.
 - Consulting services (detailed by vendor). PERF was running favorable to plan. Major consulting expenditures were for Navigant (data clean up project), the asset liability study, and the actuarial audit project, the timing of which was later than budgeted.

- Contractual Services. This was mainly for on-going expenses incurred in maintaining the computer system, the largest being Covansys (SIRIS).
- Investment fees by money manager are sorted by category (custodian, investment advisers (domestic equity, international equity and fixed income money managers).
- Cash Flow (significant items and contributions received). Contributions are received on a quarterly basis (usually on first month of each new quarter).

c. State Board of Accounts Audit Report. Copies of the report were provided.

9. OTHER BUSINESS.

Mr. Birge, on behalf of the Board, expressed his appreciation to Mr. Biesecker for taking up the post of Acting Executive Director during the interim period.

10. ADJOURNMENT.

MOTION duly made and carried to adjourn.

Proposed by: Nancy Turner
Seconded by: Garland Ferrell
Votes: 5 in favor, 0 against, 0 abstentions.

11. DATE OF NEXT MEETING. The next meeting of the PERF Board of Trustees will be held on Friday, February 14, 2003.